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New year brings challenges for schools, state

Districts brace for cuts as Mich. budget deficit looms

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As the post-holiday grind begins today, Gov. Jennifer Granholm and state lawmakers see a glimmer of hope beyond Michigan's economic maelstrom.

The state budget is balanced and won't need emergency amputation this month, state economists said. Still, the new year is bringing more challenges for public school and state finances.

The state faces a potential shortfall of \$1.8 billion in 2011, after it consumes most of the \$2 billion in federal stimulus money that propped up this year's budget. Without another huge infusion of federal bucks, Granholm and the Legislature will need to cut spending, raise taxes or both. Granholm is expected to present her solution next month.

The Legislature left unresolved last month questions about whether to raise taxes to alleviate \$500 million in school funding cuts or to replace some money wiped out for local governments and 96,000 college students who lost their Michigan Promise scholarships. Now, school districts are preparing for layoffs and other cuts.

Sen. Ron Jelinek, R-Three Oaks, chairman of the Senate Appropriations Committee, said that without tax reform, the next budget will be "making do with what we have."

But Sen. John Pappageorge, R-Troy, said he's not giving up on helping schools with new taxes. He represents six districts hard-hit by budget cuts.

"Schools cannot take a \$500 per-pupil cut," he said.

Prediction for Mich. budget: No more cuts

Next Monday, state economists are to meet to prophesy Michigan's finances through 2011.

Maybe they all need to carry a rabbit's foot for good luck, something they've lacked in recent predictions. Tax revenues always came in less than expected, as the economy weakened without respite.

This time, there's some hope: The state budget is stable, and no further cuts in aid to schools -- or anything else -- are expected.

Still, Michigan's woeful economy and the aftermath of budget slashing point to more hardship for a government that was flush with cash 10 years ago. The state faces a potential shortfall of \$1.8 billion in 2011, after it consumes most of the \$2 billion in federal stimulus money that's propped up this year's budget.

Momentum for more taxes to restore some budget cuts, particularly for schools, has lost steam, said House Speaker Andy Dillon, D-Redford Township.

"I don't see short-term revenue proposals for K-12 schools getting traction," said Dillon, whose

attempts to raise more money were rebuffed by Senate Republicans during 2009-10 budget negotiations.

Unless the state can overhaul its tax system and cut costs, "I see a very difficult budget process next year."

A bitter pill to swallow

For now, a sour taste remains for schools, municipal governments and 96,000 college students who lost state scholarships to budget cuts. Each of those students was denied \$1,000 to \$4,000 in grants.

About \$1 billion in federal stimulus money has gone to public schools, which nonetheless absorbed a \$500-million cut in direct state aid. Many districts are girding for layoffs, school closures and other cutbacks halfway through the school year.

Last month, Gov. Jennifer Granholm restored \$212 million for schools, or \$127 per pupil for all districts. But there is no guarantee that money will be there this month.

"It's extremely frustrating," said Steve Baker, a board member of the South Redford School District. He said that if the \$127 per-pupil cut is reinstated, South Redford schools will lay off teachers. That would result in larger classes and students shuffled to unfamiliar teachers midyear.

"They need to figure out school funding that's not so closely tied to the ups and downs of the economy," Baker said.

Several plans have been floated to bring in quick cash: freezing the size of tax credits for businesses and low-income taxpayers, reducing tax credits for moviemakers, taxing bottled water and raising taxes on tobacco, but not cigarettes. The Republican Senate and Democratic House haven't agreed on any idea.

Mitch Bean, director of the House Fiscal Agency, said Congress is considering a second round of aid to states, which could funnel \$925 million to Michigan for the 2010-11 fiscal year. That would erase about half of the potential deficit.

'Time to try something else'

The state needs more than federal transfusions, it needs a tax overhaul, said Doug Pratt, spokesman for the Michigan Education Association, the state's largest teachers union.

"The public is coming around to seeing what's been done in Lansing isn't working. It's time to try something else," Pratt said.

Granholm and others favor reducing the 6% state sales tax but extending the tax to some untaxed services.

Pratt said that's only part of a solution. He said the state gives away \$6 billion more in tax credits and deductions than it takes in as revenue; tightening or eliminating some tax breaks could generate large revenues without a general tax increase.

House Minority Leader Kevin Elsenheimer, R-Kewadin, said it's time for the state to seriously tackle wages and benefits among public employees, including teachers. Most state employees are scheduled to get a 3% pay increase Oct. 1.

"Most people have taken some kind of pay cut or haven't gotten any raises. That's probably something government is going to have to follow suit on," Elsenheimer said.

"As Republicans, we don't oppose all taxation. What we're concerned about is that we have significant reforms in place."

Gary Olson, director of the Senate Fiscal Agency, said with a state unemployment rate of almost 15%, raising taxes is questionable.

Since 2000, Michigan's ranking among states in per-capita income has dropped from 18th place to 37th.

"That tells me, as recently as 2000, we were a relatively affluent state. We're not anymore," Olson said. "Have we fundamentally adjusted, not just the state, but local government and schools?"

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